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TRADE AND DEVELOPMENT BOARD
Committee on Commodities
Second session
First Sessional Sub-Committee
Geneva, 9 May 1967
Agenda item 4

MAIN ELEMENTS OF COMMODITY POLICY INCLUDING INTERNATIONAL COMMODITY ARRANGEMENTS AND OTHER TECHNIQUES OF COMMODITY MARKET STABILIZATION

(i) Operation and financing of buffer stocks

(ii) Role and financing of diversification programmes

(iii) Basic principles and guidelines for pricing policy designed to [maximize] receipts from exports of primary commodities 1/

Draft report of the First Sessional Sub-Committee

1. The First Sessional Sub-Committee, established by the Committee on Commodities at its 24th meeting on 12 May 1967 to consider and report on item 4 of its agenda, held ... meetings from 12 to ... May. At its first meeting it elected Mr. T. Sharp (United Kingdom) as its Chairman and Mr. R. Ranbahiniarison (Madagascar) as its Vice-Chairman and Rapporteur.

2. At its ... meeting on ... May, the Sub-Committee considered and adopted the report on its deliberations which appears below and which it submits to the Committee.

3. The Committee devoted most of its discussions to the questions of diversification and buffer stocks. It nevertheless had a general exchange of views on the question of international commodity policy. In commenting on the secretariat's document "The Development of an International Commodity Policy" (TD/B/C.1/26) the Committee generally expressed support for a study along the lines described in that document, which was

1/ The language of item 4 and its sub-items is taken textually from the draft provisional agenda for the second session of the Conference as adopted by the Trade and Development Board at its fourth session. No agreement was reached by the Board on the formulation contained in square brackets.

intended to link together various essential elements of an international commodity policy that would be separately considered at the second Conference. The Committee noted that the study was to provide an analytical framework of international commodity policy, and at the same time concentrate on a few selected areas in which intergovernmental collaboration in the commodity field would be technically feasible and might be considered by governments as desirable. A number of comments were made on various sections of the document in order to facilitate the further work of the secretariat; the representatives of developed countries thought that more consideration should be given to alternative views concerning the objectives of commodity policy. The Committee requested that the outline of the study, together with completed chapters of the final document, should be referred to the Advisory Committee to the Board and to the Committee on Commodities, whose views should be taken into account by the secretariat in preparing the full version of the study for the second Conference.

4. In the course of its deliberations on item 4, the Committee considered the problems arising from competition between natural products and synthetic materials.1/ It was generally agreed that increasing production of synthetics and substitutes as part of the process of the economic growth of countries raised serious problems for those developing countries whose foreign exchange earnings depended substantially on exports of natural products facing competition from synthetics. The Committee considered that appropriate action was urgently needed, in conformity with recommendation A.II.7 of the first Conference, to mitigate these adverse effects. In this connexion, it took note of the request that all commodities facing serious current or potential competition from synthetics should be classed forthwith among those giving rise to concern. It noted the actions being taken by a number of developing countries and specialized international commodity bodies to improve the competitiveness of natural products and to find additional uses for them.

1/ Its consideration of these and related problems is more fully reported in the chapter of the present report which deals with agenda item 3.

5. As regards the need to stabilize prices of natural products so as to increase their attractiveness vis-à-vis synthetics, representatives of developing countries expressed concern regarding releases of natural products from the government stockpiles of some developed countries and feared that these might unduly depress prices or create uncertainty concerning their future. The representatives of some developed planned economy countries considered that the idea of long-term contracts should be explored.

6. The Committee considered various aspects of the problem of investment and financing with respect to natural products and their synthetic competitors. Several countries emphasized that if investment in the production of natural materials - especially those with a long gestation period - was to be undertaken on an appropriate scale, not only would adequate projections of future demand be required, but it would also be useful to have more information about projected production capacity and future production costs for synthetic materials. Developing countries producing natural products felt that more active co-operation along these and related lines should be forthcoming from producers of competing synthetic materials in developed countries. It was noted that a number of developed countries had regulations restricting the use of artificial sweeteners, which developing countries requested should be retained. At the same time some developing countries called attention to the question of special incentives to investment in synthetic production capacity in certain developed countries.

7. The Committee discussed a programme of work for the Permanent Group on Synthetics and Substitutes, which had been suggested in the secretariat paper TD/B/C.1/28. In any case, it would be for the Permanent Group, at its first session, to prepare its programme of work, taking into account the reservations expressed and proposals made during the debate on the suggestions contained in document TD/B/C.1/28.1/

8. [Text to be inserted on a possible meeting of the Permanent Group after the plenary committee has taken a decision in the matter.]

(i) Operation and financing of buffer stocks

9. The Committee generally commended the secretariat on having set out in the relevant document (TD/B/C.1/29) the basic issues that had to be considered. It further examined schemes for the stabilization of particular commodity markets. It stated that the special consideration of the subject was timely in view of the wider interest in buffer stock schemes that had arisen from the recent negotiations for an international cocoa agreement.

1/ See summary record SR...

10. The Committee indicated broad agreement on the general objective of the stabilization of commodity markets. It acknowledged that such stabilization would benefit both exporting and importing countries. It agreed that the operation of buffer stocks was one of the useful techniques for eliminating excessive fluctuations in the market prices of particular primary commodities within the framework of international agreements and preferably in conjunction with other market stabilization techniques such as export quotas. Buffer stock schemes, it was considered, were applicable especially, but not exclusively, to commodities in the first of the three categories adopted by the Advisory Committee (TD/B/C.1/25, paragraph 15) and that the number of commodities susceptible to the operation of buffer stocks was limited by technical considerations and market conditions.

11. The Committee generally considered that important conditions for the effective operation of an international buffer stock remained the participation of an adequate number of major producer and consumer countries and the availability of sufficient financial resources. It welcomed the useful distinction made in the secretariat paper between pre-financing requirements and the regular income requirements of buffer stock schemes. Adequate pre-financing was generally recognized as an important element in a buffer stock scheme for certain commodity markets. The point was made that in the draft international agreement on cocoa pre-financing seemed necessary only to the extent that the buffer stock would be compelled to purchase large quantities of cocoa before the normal revenue provided sufficient capital. Among the possible sources of funds for pre-financing, the members of the Committee placed particular emphasis in the relevant cases on loans from governments and credit from existing international financial institutions. Several representatives also mentioned the possibility of obtaining funds from commercial banks with or without the backing of governments and acceptance by those governments of responsibility for part of the interest charges. As regards the regular income on buffer stocks, several methods of generating such income were noted, including that of levies on exports and imports of the commodity in question. The representatives of the developing countries and of several developed countries expressed support for the principle that the financing of individual schemes should be shared by both developed and developing countries, although it was pointed out that the actual extent and instruments of financing would have to depend on a careful consideration of the characteristics of the markets for each individual commodity considered and be examined within the context of each agreement to be concluded. Representatives of developing countries stressed that developed countries should provide the major part of the finance required.

12. All the representatives who participated in the discussion commented on the suggestion made in the secretariat document for the possible establishment of a central fund (TD/B/C.1/29, paras. 44, et seq.). Representatives of developing countries suggested that at the second Conference governments should be able to consider whether certain commodities merited priority in the negotiation of buffer stock schemes, the adoption of general guidelines on the operation and financing of buffer stocks and other market stabilization techniques, and the possible establishment of a central fund to assist in the financing and pre-financing of buffer stocks. The representatives of some developing countries thought that a central fund might be a useful means of financing buffer stocks. Representatives of developed countries, however, were unable to endorse the idea of the establishment of a central fund at the present time, since, in their view, this would result in the partial immobilization of scarce financial resources. The secretariat was requested, in consultation with the other international agencies, to study further the possibility of creating such a central fund applicable to a few commodities and to prepare such documentation as it deemed useful in this connexion.

13. Some representatives pointed out that an alternative method of financing buffer stocks might be the provision of special facilities by existing international financial institutions. Several representatives referred to the juridical provisions limiting the ability of such institutions to provide finance for short-term stabilization schemes, and called for the relaxation of such provisions. In this connexion, the representative of the International Monetary Fund, emphasizing the Fund's wish to foster the sustained economic growth of developing countries, stated that the secretariat document was being carefully studied in the Fund, in particular the passages dealing with possible sources of capital for the pre-financing of any proposed buffer stock. He added that, as the document recognized, there were juridical considerations which did not at present allow the Fund directly to finance short-term commodity stabilization schemes, including buffer stocks. Noting that the Fund's policy and practices concerning the use of its resources were kept under continuing review, in order to maximize their helpfulness to the Fund's member countries, he stated that the Fund would wish to take into account relevant aspects of the financing problems involved in possible international commodity agreements. Several representatives welcomed this positive statement.

(To be continued in document TD/B/C.1/SC.1/L.1/Add.1)

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(i) Operation and financing of buffer stocks

(ii) Role and financing of diversification programmes

(iii) Basic principles and guidelines for pricing policy designed to [maximize] receipts from exports of primary commodities[1/]

Draft report of the First Sessional Sub-Committee

Addendum

1/ The language of item 4 and its sub-items is taken textually from the draft provisional agenda for the second session of the Conference as adopted by the Trade and Development Board at its fourth session. No agreement was reached by the Board on the formulation contained in square brackets.

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(ii) Role and financing of diversification programmes

14. The Committee had before it a document (TD/B/C.1/36) prepared jointly by the secretariats of UNCTAD and FAO. In its discussion of item 4 (ii) the Committee also considered the relevant passages in the report of the Advisory Committee to the Board and to the Committee on Commodities on its first session (TD/B/C.1/25, paras.30 et seq.). It was generally agreed that document TD/B/C.1/36 provided a useful summary of a complex subject which had only recently commanded the attention of the international institutions. It was stressed that diversification was an integral part of the general process of economic development. Nevertheless, as the primary sector constituted a major part of the economies of developing countries and earnings from sales of primary commodities accounted for the bulk of their export incomes, the role of diversification was closely related to commodity policy.

15. There was broad agreement on several issues relating to the role of diversification, and the wider implications of diversification in the strategy of economic development were extensively discussed. It was recognized that diversification should be examined not only on a commodity-by-commodity basis but also by country or group of countries as diversification programmes formed a part of economic development plans. As such, diversification had implications affecting policies relating to commodities, manufactures and the financing of development. The need existed for a review of the activities of international agencies in the field of diversification, and consequently close consultation and co-ordination should be maintained between the various Committees of UNCTAD, as well as between UNCTAD and other agencies such as FAO, UNIDO, study groups and commodity councils interested in the problems of diversification, with a view to a co-ordinated approach to the problems of diversification.

16. In the discussion on international co-operation in furtherance of diversification programmes, it was pointed out that primary responsibility in this field rested with the developing countries themselves. However, it was admitted that these efforts to achieve diversification should often be reinforced and supported by the developed countries acting in close co-operation with the developing countries, especially through bilateral and multilateral aid programmes, the provision of technical assistance, and an increased flow of private investment. In this connexion, the attempt by the IBRD to develop a system of multilateral investment guarantees was particularly important.

17. The importance of regional integration in diversification plans was also recognized. In addition, many representatives considered that the needs of the least advanced of the developing countries, both within and outside integration schemes, required special consideration with a view to achieving a more diversified economic structure. The representatives of the developing countries considered that the diversification of the economies of the developing countries required, among other international measures, that access to the markets of developed market economy countries should be progressively liberalized for commodities exported from developing countries, especially for processed commodities. These representatives were also of the opinion that the socialist countries should increase their imports of these commodities. Readjustments in the economic policies of developed countries could contribute to the success of these diversification programmes.

18. The Committee generally accepted the four broad patterns of diversification of the economies of developing countries identified by the Advisory Committee (TD/B/C.1/25, paragraph 31). It recognized that there was a separate but related aspect to diversification which was that of the improvement of productivity in agriculture, especially as regards commodities exposed to competition from synthetic materials and hence to the risk of declining prices. The importance of diversification through increased food production was stressed, although it was recognized that balanced progress was urgently required in relation to all forms of diversification. For economies heavily dependent on a limited range of commodities with unfavourable export prospects, diversification required a broadening of the pattern of production in favour of commodities with a more dynamic growth potential. In this connexion, there was general agreement that projections of the demand for and supply of individual commodities, if used with caution, would provide a useful indication as to the desirable pattern of production towards which diversification efforts should be directed. It was stressed that diversification programmes might have international repercussions and that, if possible, production should be internationally co-ordinated. The representatives of the developing countries were also of the view that such co-ordination should apply both to natural and synthetic products. In the absence of such co-ordination, isolated efforts by individual countries to diversify their production might aggravate a global surplus problem for a particular commodity or, if diversification took the form of a shift to certain alternative crops, it could upset the market balance of these commodities. The representatives who participated in the discussion were in general

agreement that for many developing countries the diversification of exports to avoid their heavy dependence on primary commodities in crude form and their replacement by processed commodities and manufactured goods offered the greatest promise in the long-term.

19. The Committee discussed the role of diversification programmes in the context of international commodity policy, mainly in relation to the possible avenues of inter-governmental action suggested by the secretariat (TD/B/C.1/36, paragraphs 51 et seq.). The Committee agreed that a list should be prepared of primary commodities for which diversification programmes involving control over increases in production and/or improvements in produciivity were urgently required. It nevertheless recognized that such a list should not be exhaustive, but flexible. It was proposed that the secretariat provide further documentation for the second Conference on the diversification problems of a limited number of commodities facing special problems of structural over-supply or serious competition from synthetics and substitutes. In particular, the secretariat should draw the attention of the Conference to areas requiring further detailed study, including the possibilities of co-ordinating production growth and productivity improvements on the one hand, and of latneraative economic employment of resources on the other, taking into account the special needs and characteristics of the individual countries producing the particular commodities concerned.

20. The Committee acknowledged that external financial assistance was important for the fulfilment of diversification programmes as a supplement to the efforts undertaken by the developing countries. It was generally agreed that external finance for diversification programmes forming an integral part of the development plans of individual countries, or for regional diversification schemes, should essentially be made available from the usual sources of development finance including governments and international financial institutions. However, it was also felt that, in appropriate instances, financing of diversification programmes would fall within the framework of international commodity policies. The Committee endorsed the view that, in the preparation of commodity agreements, consideration should be given to the desirability of making special provision, where appropriate, for the financing of diversification schemes. It was recognized that the success of international agreements for commodities in surplus would largely depend on the success of exporting countries in controlling supplies by

diversification. With regard to diversification mention was also made of the action taken within the international coffee organization to establish a diversification fund and it was hoped that the action undertaken would soon prove successful.

21. The Committee was also in general agreement that the special needs of individual developing countries exporting commodities which suffered from serious market difficulties, and for which no international commodity agreement existed, should be brought to the attention of governments and agencies providing development finance. Representatives of developing countries, in addition, thought that further consideration should be given to the usefulness of a diversification fund (or funds) for particular commodities for which no international agreement existed, and that - where appropriate - preferential access to the usual sources of external development financing should be made available for diversification programmes for such commodities. Representatives of developed countries stated that they could not agree to the need for a fund (or funds) for commodities not covered by international commodity agreements. In their view, such a fund (or funds) would immobilize considerable financial resources which could be more judiciously employed elsewhere. Moreover, they felt that diversification programmes for such commodities should be incorporated in the economic development plans of the producing countries concerned. Their financing would be considered on a country-by-country basis and recourse might be had to bilateral or multilateral aid.

(iii) Basic principles and guidelines for pricing policy designed to [maximize] receipts from exports of primary commodities

22. The Committee held a discussion on this sub-item, in the course of which a number of substantive and procedural issues were raised. The Committee regretted that at its first session the Permanent Sub-Committee on Commodities had been unable to reach agreement on the basic principles and guidelines for pricing policy for primary commodities which had been discussed in connexion with the international organization of commodity trade. Although it was recognized that the subject was most important and required full consideration, there was general agreement that, in view of the complexities of the issues involved, the discussion should not be pursued in detail at the present time. Instead, the Committee suggested that the Advisory Committee should consider the basic principles and guidelines for pricing policy of primary commodities at its second session. It requested therefore that the relevant documentation submitted to the Permanent Sub-Committee should be submitted to the Advisory Committee at its forthcoming session. It further requested that the report of the Advisory Committee should be circulated in time for the fifth session of the Trade and Development Board, in order that Governments would have an opportunity to consider the subject again before the second Conference.

Representatives of developing countries stressed the need to clarify and, if possible, reach a broader measure of agreement on the fundamental principles of price policy. They expressed the hope that the work done in this connexion by the Permanent Sub-Committee, as set out in its report (TD/B/C.1/21, annex I, paragraphs 26-34), would be resumed and lead to an agreement.